

ARIZONA TAX NEWS



Jane Dee Hull, Governor

Mark W Killian, Director

Inside this issue:

Summary of
General Fund Revenues

June 2002
Tax Calendar

Alternative Fuel
Vehicle Report
for March/April, 2002

Convict and Conspirator
Arrested in
Tax Refund Scheme

DOR Update Program

E-Mail Your Questions

If you have a question that you cannot find the answer to, our Technical Assistance personnel may prove useful to you. We will gladly respond to any e-mail technical tax inquiry. All inquiries will be responded to within two working days.

E-mail your question to:
TaxpayerAssistance@revenue.state.az.us

In the interest of maintaining confidentiality, DOR cannot respond to inquiries that include a Social Security number, FEIN, TPT or W/H number, or other specific taxpayer identifiers.

BR/ITS CONTRACT TO BE AWARDED SOON

BRITS, the Department's reengineering project, is continuing toward the awarding of a contract. The evaluation of the proposals submitted by American Management Systems and Accenture is proceeding as the various stakeholders and other concerned groups look over the products. A major concern in this process is that it is fair to both bidders and that their proposed solutions get a thorough evaluation. The Evaluation Team recently completed a trip to Richmond, Virginia and Washington, D.C. to look at what has already been implemented at the revenue agencies in these jurisdictions. The locations were chosen by the competing vendors as representative samples of what they can do for Arizona. The team returned very excited about the future for the Department and the increased level of service DOR will be able to provide to taxpayers and practitioners. DOR is still

expecting to award a contract by this summer and begin implementation soon after.

As a follow-up to last month's discussion of our electronic processing programs, we are pleased to announce that we had nearly 480,000 E-filed returns, including over 200,000 direct deposited refunds. These direct deposit refunds totaled almost \$149 million. 2D is a pleasant surprise in its first year. We have about 112,000 of these processed so far. Although they are technically paper returns, they save 80% in processing time. Since they are also almost error free, there are no downstream problems such as erroneous billings. There are 4 developers of 2D software used by practitioners: H&R Block, Creative Solutions, Drake Enterprises, and STF Service Corp. The percent of total 2D returns by developer is as follows: 58% for Block, 23% for Creative Solutions, 18% for Drake, and 1% for STF.

TWO ARRESTED STEALING BINGO FUNDS

A 3½-month investigation by the Arizona Department of Revenue culminated last November in the arrest of two Winslow residents, Jacqueline Oso and her mother, Erlinda Gonzales. They are

suspects in the theft of more than \$30,000 in bingo funds from St. Joseph's Parish Hall in Winslow over the past 2 years.

(Continued on page 6)

*** * * REMINDER * * ***

FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your
May 2002 TPT return no later than
June 25, 2002 or deliver to DOR no later
than June 27, 2002.**

**MARCH SUMMARY OF
GENERAL FUND REVENUES**

	<u>March 2002</u>	<u>Fiscal Year Total</u>
Individual Income Tax		
Net Collections	(\$30,576,555)	\$1,283,058,722
Percent Change *	(12.8%)	(4.4%)
Corporate Income Tax		
Net Collections	\$27,181,078	\$199,712,432
Percent Change *	(5.3%)	(43.4%)
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$238,557,713	\$2,209,892,042
Percent Change *	2.8%	(0.3%)
Total Big Three Tax Types		
Net Collections	\$235,162,236	\$3,692,663,196
Percent Change *	4.2%	(5.6%)

() Decrease from same month last year.

* Percent change from same month last year.

**Individual Income Tax
Individual Income Tax Receipts**

	March 2002	March 2001	%
Gross Collections	\$22,392,673	\$22,269,973	(0.6)
Withholding	187,049,148	196,813,767	(5.0)
Refunds	(204,806,204)	(221,129,745)	(7.4)
Urban Rev Sharing	(35,212,171)	(33,037,720)	6.6
Net Collections	\$30,576,555	\$35,083,725	(12.8)
Fiscal Year Total (01/02) (00/01) %			
Gross Collections	\$298,870,857	\$325,376,255	(8.2)
Withholding	1,754,142,285	1,776,010,827	(1.2)
Refunds	(453,491,200)	(462,676,292)	(2.0)
Urban Rev Sharing	(316,463,219)	(297,339,480)	6.4
Net Collections	\$1,283,058,722	\$1,341,371,311	(4.4)

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. In March \$1,521,897 in alternative fuel vehicle credits were processed. After offsetting \$793,812 in tax liability, refunds for this credit totaled \$728,085. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit. Additional refunds were paid out of corporate income tax.

TAX CALENDAR

JUNE 2002

<u>Due Date</u>		<u>For Period Ending</u>
17	Income Tax Returns: Form 120: Corporation Form 140: Individual Form 141: Fiduciary Form 165: Partnership	2/28/02
17	Form 120: Corporation with Automatic Extension	8/31/01
17	Form 120S: S Corporation	3/31/02
17	Form 99: Exempt Organization Annual Information Return	1/31/02
17	Form 99T: Exempt Organization	1/31/02
17	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	2/28/03
	Second Installment	12/31/02
	Third Installment	9/30/02
	Fourth Installment	6/30/02
20	Form TPT-1: Transaction Privilege Tax: May Monthly Filers	5/31/02
20	Bingo: Financial Reports	5/31/02
20	Luxury Tax: Various Forms	5/31/02
25	EFT Form TPT-1 and Payment: Transaction Privilege Tax May Monthly Filers	5/31/02

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits. If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from: **Tony Manzo** or **Diane Sosinski** at (602) 542-4672.

ALTERNATIVE FUEL VEHICLE REPORT FOR MARCH & APRIL, 2002

March

For the period of March 1 through March 31, 2002, the department received 118 individual income tax returns with claims for alternative fuel related credits totaling \$0.9 million. A total of 5,342 individual income tax returns with claims have been received from January 2001 through March 2002, totaling \$98.9 million in credit. The department also received 9 corporate income tax returns in February with claims for alternative fuel related credits totaling \$0.1 million. A total of 187 corporate income tax returns with claims have been received from January 2001 through March 2002, totaling \$17.6 million in credit.

- The dollar amount of verified credits claimed in the preceding calendar month not used to offset income taxes under title 43, Arizona Revised Statutes.

For the period March 1 through March 31, 2002, the department issued 81 individual income tax refunds for alternative fuel related credits. There was \$1,521,897 in AFV credits on these 41 returns. After offsetting \$793,812 in liability, \$728,085 was refunded. The department issued 18 corporate refunds for alternative fuel related credits. There was \$881,692 in AFV credit on these 18 returns. After offsetting \$405,907 in liability, \$475,785 was refunded.

Combining the corporate and individual income tax return amounts results in \$1,203,870 that should be transferred from the Budget Stabilization Fund into the General Fund for March 2002. In last fiscal year, \$72,732,852 was paid from the Budget Stabilization Fund into the General Fund. In this fiscal year, \$23,351,987 is the total to be paid from the Budget Stabilization Fund, putting the overall total coming from the Budget Stabilization Fund for alternative fuel vehicle credits at

\$96,084,839.

- The cumulative dollar amount of the credits claimed in all taxable years, beginning from and after December 31, 2000.

The cumulative dollar amount of credits (individual and corporate) claimed is \$116.5 million.

- Any estimated amounts remaining to be claimed as credits in each fiscal year.

Through March 2002, 5,342 (corporate and individual) claims have been received. Those claims reviewed include 5,290 claims for 5,892 vehicles, 28 claims for refueling stations and 615 claims for refueling apparatus. (Claims that have not yet been reviewed are not included in this count.) While most returns for 2000 filers have been received, there may be additional claims made through late filers and amended returns. Also, according to grant applications, there are taxpayers who will first qualify for a credit on their 2001 tax returns.. At this time, the department has no independent means of estimating the amount yet to be claimed.

April

For the period of April 1 through April 30, 2002, the department received 133 individual income tax returns with claims for alternative fuel related credits totaling \$1.2 million. A total of 5,435 individual income tax returns with claims have been received from January 2001 through April 2002, totaling \$100.1 million in credit. The department also received 3 corporate income tax returns in April with claims for alternative fuel related credits totaling \$1,000. A total of 190 corporate income tax returns with claims have been received from January 2001 through April 2002, totaling \$17.6 million in credit.

- The dollar amount of verified

(Continued on page 6)

CONVICT AND CONSPIRATOR ARRESTED IN TAX REFUND SCHEME

Based on evidence compiled by **Laren Melton** and **Tamara Harris** of the Arizona Department of Revenue and presented by the Arizona Attorney General's Office, a state Grand Jury returned a multiple count indictment on December 4, 2001 against 37 year old Mike Garcia, Jr. and 21 year old Manuel Saldana, both of Moreno Valley, California. Garcia, Jr. was served with an arrest warrant on December 19, 2001, at the Arizona State Prison Complex – Lewis, where he is serving a sentence for absconding while on parole. He was paroled from a prior conviction for Fraudulent Schemes and Artifices. Saldana was served with an arrest warrant in Riverside, California and will be extradited to Arizona for arraignment.

Garcia, Jr. is charged with one count of Fraudulent Schemes and Artifices, a class 2 felony; thirty-eight counts of Filing a False Claim, all class 5 felonies; and one count of Theft, a class 2 felony. Garcia, Jr. pleaded "not guilty" to the charges at his arraignment on December 31, 2001. Saldana is charged with one count of Fraudulent Schemes and Artifices, a class 2 felony; thirty-eight counts of Filing a False Claim, all class 5 felonies; and one count of Theft, a class 3 felony. Saldana is awaiting extradition to Arizona for arraignment on the charges.

The allegations as put forth by the Investigative Staff of the Arizona Department of Revenue and the Arizona Attorney General's Office charge that between January 2000 and July 2001 Garcia, Jr. and Saldana fraudulently obtained funds from the Arizona Department of Revenue by filing fraudulent



Right: **Laren Melton** Criminal Investigator and **Tamara Harris** Deputy Administrator of the Criminal Investigations Unit.

Arizona Individual Income Tax Returns and receiving refund checks based upon those fraudulent returns. Further, Garcia, Jr. allegedly obtained over \$50,000.00 from the Arizona Department of Revenue by cashing refund checks obtained through the submission of the fraudulent Arizona Individual Income Tax Returns. Saldana allegedly obtained nearly \$5,000.00 through the execution of the scheme.

If convicted, Garcia Jr. could face a maximum of at least 9 years in prison and it is unknown at this time the prison time Saldana may face.

The two state agencies anticipate other Grand Jury indictments of similar refund schemes in the near future as a result of enhanced enforcement efforts by the Arizona Department of Revenue Criminal Investigations Staff.



BUSINESS WORKSHOPS OFFERED

The Arizona Department of Revenue offers business workshops to benefit all stages of business development.

For a new business or an individual thinking about setting up a business in Arizona, the Small Business Workshop will make reporting easier and help you better understand the transaction privilege taxes that apply to a particular type of business.

Topics to be covered:

- ◆ Completing the Joint Tax Application
- ◆ Reporting and factoring tax
- ◆ State and city taxes
- ◆ Resale certificates
- ◆ Business classifications
- ◆ Employment taxes
- ◆ Use tax.

IRS topics include:

- ◆ Business organizations
- ◆ Record keeping

- ◆ Business deductions
- ◆ Credits and expenses
- ◆ Business use of the home.

Those who attend will receive a workbook containing valuable information on the taxes that apply to most business classifications as well as the A – Z Taxes for Small Business CD-ROM.

For an existing business, workshops range from the Construction Industry Workshop to Retail Workshop to TPT Forms – How to Report Correctly and Filling in the Blanks...A Guide to Arizona Withholding. Workshops are scheduled in various areas throughout Arizona. Visit our website at www.revenue.state.az.us/seminar/citygrid.htm or call 602-542-3062 for a complete listing, descriptions of workshops and dates/times of workshops.

ARIZONA DEPARTMENT OF REVENUE UPDATE PROGRAM

This program provides you with Arizona Department of Revenue updates and information via e-mail. This program will provide the Participants receive such items as the Tax News, Tax Facts, News Releases, Procedures, Rulings, etc. as soon as they are released.

How do I participate in the program?

To participate you will need to provide your name, company name and e-mail address.

Is there a cost or subscription fee for this service?

No. This service is being provided at no charge for our Tax Professional partners.

Will my e-mail address be released or sold to other agencies or companies?

When the Department receives information from visitors to its web site through e-mail or another means provided by the web site, the information is treated and used in the same manner as information that is received through the U.S. Mail or by telephone and is subject to the same protection and guidelines for non-disclosure of that information. The Department will make every reasonable effort to maintain the confidentiality of this information subject to state law and regulation.

How do I sign up? Contact Jody Jaeger at jaegerj@revenue.state.az.us. Be sure to include your name, company name and e-mail address in the body of the message.

ALTERNATIVE FUEL (Continued from page 3)

credits claimed in the preceding calendar month not used to offset income taxes under title 43, Arizona Revised Statutes.

For the period April 1 through April 30, 2002, the department issued 34 individual income tax refunds for alternative fuel related credits. There was \$1,563,811 in AFV credits on these returns. After offsetting \$171,519 in liability, \$1,392,292 was refunded. The department issued 13 corporate refunds for alternative fuel related credits. There was \$560,704 in AFV credit on these returns. After offsetting \$14,335 in liability, \$546,369 was refunded.

Combining the corporate and individual income tax return amounts results in \$1,938,661 that should be transferred from the Budget Stabilization Fund into the General Fund for April 2002. In last fiscal year, \$66,360,441 was paid from the Budget Stabilization Fund into the General Fund. In this fiscal year, \$31,663,059 is the total to be paid from the Budget Stabilization Fund, putting the overall total coming from the Budget Stabilization Fund for alternative fuel

vehicle credits at \$98,023,500.

- The cumulative dollar amount of the credits claimed in all taxable years, beginning from and after December 31, 2000.

The cumulative dollar amount of credits (individual and corporate) claimed is \$117.7 million.

- Any estimated amounts remaining to be claimed as credits in each fiscal year.

Through April 2002, 5,625 (corporate and individual) claims have been received. Those claims reviewed include 5,297 claims for 5,945 vehicles, 30 claims for refueling stations and 618 claims for refueling apparatus. (Claims that have not yet been reviewed are not included in this count.) While most returns for 2000 filers have been received, there may be additional claims made through late filers and amended returns. Also, according to grant applications, there are taxpayers who will first qualify for a credit on their 2001 tax returns.. At this time, the department has no independent means of estimating the amount yet to be claimed.

BINGO (Continued from page 1)

The investigation began when officials from St. Joseph's Parish Hall contacted the department's Bingo Section regarding possible thefts of bingo proceeds.

The department initiated an investigation and it revealed that Oso and Gonzales had acted together to alter records in order to cover up the thefts. Using surveillance cameras and discarded bingo cards, bingo investigators gathered enough evidence to secure a 110-count indictment of the suspects by a Navajo County Grand Jury. Ms. Oso was charged with Conspiracy to

Commit Fraudulent Schemes; Fraudulent Schemes; Computer Fraud; Theft and 30 counts of Forgery. Ms. Gonzales was charged with Conspiracy to Commit Fraudulent Schemes; Fraudulent Schemes; and 110 counts of Forgery.

Follow-up:

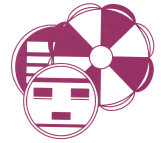
Bingo Worker Pleads Guilty

On February 6, 2002, in Navajo County Superior Court, Jacqueline Oso pleaded guilty to theft, a class 3 felony. Ms. Oso was sentenced to 4 years probation, 500 hours of community service and she must pay restitution of \$24,000.00 at \$120.00 a month. Charges against Ms. Gonzales are still pending.





2002 Arizona Tax Conference



Co-sponsored by the Arizona Association of Assessing Officers
and the Arizona Department of Revenue

October 30, 31, and November 1, 2002
Registration will also be available on-line this year.
(beginning in September)

Location: Hyatt Regency Phoenix

122 North Second Street
Phoenix, Arizona

Hotel Rate: \$90.00 (+12.07% tax) Single/Double

For early hotel registration, call 602-252-1234 or 1-800-233-1234
and mention that you are with the Arizona Tax Conference.

For information regarding the Hyatt Regency Phoenix visit www.phoenix.hyatt.com.

The Golf tournament will be on Wednesday, October 30, 2002

Coldwater Golf Club

100 N. Clubhouse Drive, Avondale, AZ

8:00 a.m. shotgun start - \$65.00 fee.

For information regarding the Coldwater Golf Club visit www.coldwatergolfclub.com.

For more information, contact **Vicki Chappel** or **Carolyn Joya**
at the Arizona Department of Revenue, 602-542-3529, ext. 4802.



2002 FTA REVENUE ESTIMATION AND TAX RESEARCH CONFERENCE

The 2002 FTA Revenue Estimation and Tax Research Conference will be held at the Tempe Mission Palms Hotel and conference Center, Tempe, AZ, September 29 – October 2, 2002. The conference agenda will be a mix of general and concurrent breakout sessions with topics of interest to revenue estimators and state tax policy

analysts. A preliminary program will be on the conference website www.revenue.state.az.us/fta/fta.htm by mid-July. For more information, please check the conference website.



Arizona Tax Talk 2002

Suggestions are important to AZ Department of Revenue! We need yours as we are preparing for the Arizona Tax Talk 2002 and need topics that are important to you, the Tax Professional. This annual event will take place in the fall with dates to be announced later.

Please email your topic recommendations to:

Karen Mortimer

at mortimerk@revenue.state.az.us

or call her at (602) 542-4656 x 7602.

Remember Arizona Tax Talk 2002 is another CPE opportunity.